Report: HUD’s Sales of FHA-Defaulted Mortgage Loans Benefit the Big Mortgage Servicers and Hedge Funds While Homeowners Lose

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National Consumer Law Center Documents the Negative Impact on Homeowners and Recommends Improvements to Preserve Homeownership and Stable Communities

Full report, charts and tables (including the 10 largest buyers of DASP note sales), and web only materials are available at: http://bit.ly/1WTd5sW

(BOSTON) The U.S. Department of Housing and Urban Development’s (HUD’s) program for selling defaulted Federal Housing Administration (FHA) loans is the largest auctioning off of government-insured home mortgage loans in the nation’s history, yet the big winners are the large mortgage servicers who flout HUD rules while homeowners often unnecessarily lose their homes.

To date, under the Distressed Asset Stability Program (DASP), HUD has sold over 105,000 FHA-insured home loans valued at $17 billion, primarily to private equity companies and hedge funds that bought the loans at big discounts.

“HUD’s own data show that selling FHA mortgages through its Distressed Asset Stability Program does not help struggling homeowners and their communities in the long term,” said National Consumer Law Center attorney Geoff Walsh and author of Opportunity Denied: How HUD’s Note Sale Program Deprives Homeowners of the Basic Benefits of Their Government-Insured Loans. “HUD excludes homeowners from the loan sale process by not even notifying them before the sales. As a result of the sales, a homeowner loses valuable protections from foreclosure, protections that are available only when the loan is FHA-insured. Through DASP sales, HUD pays off the mortgage servicers who routinely flout the agency’s own rules, and then sells the loans at fire-sale prices to private speculators who reap profits while doing little to help vulnerable homeowners remain in their homes.”

The report documents how a few large mortgage servicers—primarily Bank of America, Wells Fargo, and JP Morgan Chase—delayed foreclosures that led HUD to create DASP. HUD paid off the claims of these servicers early, without requiring that they go through the foreclosure process. Approximately two-thirds of the funds HUD paid out for claims made under the DASP program went to these three servicers. Pushing loans through the DASP pipeline allowed servicers to evade state laws, such as foreclosure mediation laws, that would benefit many borrowers who are behind in their mortgage payments by helping them obtain permanent loan modifications.

And the winners of the DASP note sales auctions? Almost exclusively, they are large private equity firms and hedge funds. These buyers of FHA loans rarely offer viable loan modifications that might enable families to save their homes.
Selling off FHA-insured loans to private companies also voids a major obligation imposed on HUD by Congress to help preserve homeownership for families who would otherwise not have the opportunity. The American homeownership rate is at a 20-year low. The unnecessary loss of FHA homeownership often forces these families into rentals, causing them to pay increasingly higher percentages of their income for housing while losing out on the American Dream of owning a home.

“HUD could easily fix the worst problems with its note sales program by enforcing its loss mitigation rules and by notifying borrowers early in the process before their loans are sold. HUD needs to strengthen post-sale requirements of the buyers purchasing the loans. Buyers must give low- and moderate-income families the opportunity to remain homeowners and help to stabilize communities,” said Walsh.

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